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C O N F I D E N T I A L REYKJAVIK 000242

SIPDIS

STATE FOR EUR/FO A/S Dan Fried

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [IC](#)

SUBJECT: ICELANDIC ECONOMIC CRISIS: RUSSIAN LOAN STILL ON TABLE, IMF  
ANNOUNCEMENT IMMINENT

Classified By: DCM Neil Klopfenstein for reasons 1.4 (b) and (d).

1.(C) Sturla Palsson, Director of International Affairs and Markets at the Icelandic Central Bank and leader of the recent Icelandic delegation to Moscow to negotiate a 4 billion Euro loan from Russia, told Econoff that the Russian loan was still very much on the table and that both sides are keeping in telephone and email contact. Palsson said the two sides might meet possibly this week, and thought that the loan could be finalized by Friday. He said before the Icelandic delegation left for Moscow, they had been told by the Russian Ambassador to Iceland that the Russian Prime Minister had signed off on the loan. The discussions in Moscow centered around details such as whether the money would be given as a bond or loan, and what the maturity dates would be, etc. The loan would be coming from the Russian Development Agency. Palsson said that Iceland is considering IMF assistance and that initially the Russians had been against Iceland involving the IMF "because of the Russians' own negative experience with the IMF in 1997." However, Palsson said that the Russians could see the business value of involving the IMF because it could "bring in others" (presumably other nations with cash) which could create confidence in the Icelandic krona and the Icelandic economy.

12. (C) Palsson emphasized that the meetings in Moscow were to inform Russia what Iceland planned to do with the 4 billion Euro. He said that it would be used to "kick start things" and provide foreign liquidity. With bigger Central Bank reserves, foreign account holders of Icelandic krona would be less likely to cash out. Palsson acknowledged that Russia has its own financial problems, especially with the dropping price of oil, but said the Russian 500+ billion Euros in reserves would cover an Icelandic loan. Regarding the question of "why ask Russia for a loan and not the U.S.", Palsson replied that "feelers" had been put out by the government and only the Russians responded positively. Palsson said that Iceland had been in discussions with "others" and with sovereign wealth funds and that the feedback has been positive, but did not elaborate further.

13. (C) Both the Finance Minister and Prime Minister's offices said that this afternoon's FT.com's article that reported Iceland's 6 billion euro IMF agreement was imminent was unconfirmed. The assistant to the Finance Minister said that the Letter of Intent with the IMF had not yet been signed and that final figures had not been confirmed. About an hour later, however, the same assistant emailed Econoff to say that an announcement about the IMF would be likely made tomorrow.

14. (C) Comment: Icelanders are aware that a loan from the Russians may have implications. The fact that they are proceeding anyway is an indication of the seriousness of the financial situation here.

VAN VOORST